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DAILY DIGEST

Office of Current Intelligence

CENTRAL INTELLIGENCE AGENCY

*Army, DOS, DIA and USAF
reviews completed*

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*Not referred to OSD and
Navy*

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SECTION 1 (SOVIET)

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1. USSR. Stalin's message to Mao stresses Sino-Soviet friendship: On the second anniversary of the Peiping regime, Stalin sent "friendly greetings" to Mao, expressing a hope for "further successes in the construction" of the administration and the consolidation of the "great friendship of alliance" between the People's Republic of China and the USSR -- strong safeguard of peace and security in the Far East.

Comment: The significant difference between this message and the one Stalin sent in 1950 is the emphasis on Sino-Soviet friendship. In the terse greeting sent to Mao in 1950, Stalin merely sent "friendly congratulations" and wished for "further successes in building the independent People's Democratic China."

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4. TRIESTE. Effect of suspension of trade with Soviet Orbit: The Allied Military Government has prepared a study on the effects that the suspension of trade with the Soviet Orbit would have on the economy of Zone A of the Free Territory of Trieste. The study concludes that Trieste imports no commodities from the Soviet bloc that could not be procured elsewhere and that all Triestine exports could be marketed in other areas. The report also concludes that the cessation of transit trade with the Soviet bloc would not be disastrous but would be felt. On the other hand, cessation of trade with Yugoslavia, which supplies Trieste with 21 percent of its imports, would have a noticeable effect on the Zone's economy. [REDACTED]

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Comment: Hungary has threatened to divert trade from the port of Trieste unless licenses are granted for transshipments of strategic commodities to Albania. Trieste transit trade with the Soviet Orbit has declined since 1949. In that year the volume of shipments approximated 335,000 metric tons while in the first six months of 1951 it totalled 122,000 metric tons.

5. YUGOSLAVIA. Tito defines democracy: In a speech during his current tour around the country Tito commented at length on Yugoslav democracy. He declared that democracy exists "where every man has bread, work and dignity." He objected to Western statements that Yugoslavia had moved backward and that changes in the state administration had been made because of Western pressure, explaining that these changes were necessary to find the correct and "most humane path to socialism." Tito declared that Yugoslavia had renounced Russian terrorism because it is not characteristic of socialism, but warned that democracy does not extend to men who hate the Yugoslav system and that the government must apply to them "methods appropriate for such men". He stated that "democracy is for the broad masses who love their country and its social system."

The US Embassy in Belgrade comments that while this definition of democracy -- freedom to agree with the regime and the outlawing of

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dissenters -- is little different from that in the Soviet Union, in fact the regime is relaxing some controls and is more liberal than the Cominform states. [REDACTED]

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Comment: While there has been some relaxation of stringent police controls and some improvement in human rights in Yugoslavia, the recent treatment meted out to peasants wishing to withdraw from cooperatives is apparently typical of the "methods appropriate for such men" who hate the system.

6. Rumanian-Hungarian army maneuvers reported: The Yugoslavs have informed the US Embassy in Belgrade of the holding of Hungarian and Rumanian army maneuvers near the Yugoslav border. According to the Yugoslavs, Hungarian maneuvers, involving two infantry divisions, a tank regiment, an artillery regiment and supporting troops, took place between 8 and 28 September. Rumanian maneuvers of perhaps two divisions were scheduled to commence on 28 September. The Yugoslavs state that Soviet units are participating in both maneuvers and speculate that a Soviet staff is directing both exercises in a coordinated plan. [REDACTED]

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1. INDONESIA. National Party continues its opposition to Japanese treaty: Indonesia's Ambassador to the US, Dr. Ali, and chief of the mission to Japan, Dr. Sudjono -- both National Party members and delegates to the San Francisco conference -- reported to their party council on 29 September and presumably advocated ratification of the Japanese peace treaty. The following day, however, the National Party executive council reaffirmed the party's opposition to ratification. [REDACTED]

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Comment: The National Party has already reversed its position on the treaty once and undoubtedly considers it impolitic to do so again. Since the National Party vote probably would decide the issue of ratification, the government may prefer not to submit the treaty to Parliament for some months in the hope that political considerations at a later date would permit the National Party to vote affirmatively.

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3. Socialist leader would support Ho Chi Minh. The leader of the Indonesian Socialist Party, Dr. Sjahrir, who is now visiting India, told a Bombay press conference that if his party should win the coming general elections in Indonesia, it would support Ho Chi Minh's struggle in Indochina. Sjahrir said the people of Indonesia sympathize with Ho but cannot support him openly at present. [REDACTED]

Comment: It is most unlikely that the Socialist Party would win enough votes in the proposed general elections to enable it to form a government. However, sympathy for Ho Chi Minh is widely current among politically-conscious Indonesians.

The Indonesian Government does not recognize the Associated States of Indochina and, in line with its "independent" foreign policy, has little officially to say about either the Associated States or the Democratic Republic of Vietnam.

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4. INDOCHINA. French staff officer sees no end to Viet Minh rebellion: The chief of the French Bureau of National Defense in Indochina does not see how the Viet Minh can ever be defeated in the field unless they should commit "collective suicide" against French defenses. He believes that the threat to the Hanoi beachhead has been temporarily removed, but that the Viet Minh can go on recruiting indefinitely, while the French effort is approaching its financial, manpower, and materiel ceiling. [REDACTED]

Comment: Although the fighting is now going against the Viet Minh, the French and the Vietnamese must create a dynamic Vietnamese army and administration to take advantage of this favorable trend. Progress has been slow, owing partly to materiel deficiencies and partly to mutual French-Vietnamese suspicion and recrimination.

5. French take heavy toll of Viet Minh in mop-up: A French clearing action within the delta perimeter begun on 25 September has succeeded in encircling Viet Minh forces and overcoming heavy resistance. Nearly 400 Viet Minh bodies and more than 1,000 prisoners have already been counted. [REDACTED]

6. General Staff source sees Viet Minh need for morale victory: A member of the French General Staff in Indochina told the US consul in Hanoi that the current Viet Minh threat to the western Tonkin post of Nghia Lo probably indicates that the Viet Minh is casting about for a morale-boosting victory to initiate the heavier operations of the dry season. The source believes that the loss of Nghia Lo would not alter the basic situation. The US consul comments that the French do not appear willing to make an all-out effort to retain their western Tonkin outposts. He views as "debatable" the validity of the French faith in their delta fortifications. [REDACTED]

Comment: In the fall of 1950 the French perimeter in Tonkin was greatly reduced by the loss of all but one post on the China-Indochina border. It appears that the French anticipate possible further reduction this fall. General De Lattre's plan is to concentrate on the defense of the delta proper, which he hopes to make possible by ringing the entire delta with an interlocking field of fire from several hundred concrete emplacements. This project is to be completed before the end of the year.

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7. CHINA. Chinese at Indochina border town denounce "French imperialism" [redacted] the Chinese Communists at Tong Hing (just opposite Moncay, at the eastern tip of the China-Indochina border) held a mass parade and rally on 23 September on the theme of "resist America, aid Korea." The principal slogan was "down with US imperialism." The second, "ominously audible" in Moncay, was "down with French imperialism." [redacted]

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Comment: This relative importance of "French imperialism" is not reflected in the 45 slogans for Peiping's National Day (1 October), one of which honors the Viet Minh but does not specifically denounce the French. In the event that Peiping decides to intervene substantially in Indochina and also decides to prepare for such intervention in its propaganda, it is likely that there will be more evidence of such an intention than an overheard slogan at a rally. There continues to be no reliable indication of a Chinese plan to intervene in Indochina in the near future.

8. Peiping prints more of basic Communist works than of Mao Tse-tung's: Chinese Communist leader Tung Pi-wu, reviewing the progress of the Peiping regime since its founding two years ago, revealed that 2,270,000 copies of works of Marx, Engels, Lenin and Stalin were published in Communist China during 1950, as against 980,000 copies of the writings of Mao Tse-tung.

Comment: The Daily Digest of 10 September reported the assertion of an observer from Communist China that Mao's writings had "almost disappeared" in favor of translations from the works of Marx, Lenin and Stalin. While this observer obviously overstated the case, he was evidently right about the greater circulation of the basic non-Chinese Communist works. In any case, there is no longer any ideological conflict between the writings of the Communist fathers and those of Mao; Mao has been absorbed into their family and has given them credit for laying out the basic course to be followed in Communist China as elsewhere.

9. Opinions on Chinese military strategy and objectives expressed by high-ranking Chinese Nationalist: The views of Lt. General Hsiao I-Su, of the Nationalist Ministry of National Defense, concerning Chinese Communist military objectives are reported by the US Naval Attache, Taipei, in a 25 September dispatch. These objectives are held to be control over both Japan and Formosa. Regarding the former, General Hsiao believes that the Chinese Communists wish to see a weak Japan and that they regard UN forces in South Korea as "a screen for rearming Japan and thus will not be content until all UN forces are driven out or removed." Regarding Formosa, the Nationalist Government must be destroyed as it constitutes the only opposition to the Chinese Communists in China.

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General Hsiao believes that the Kaesong peace talks, or even a cessation of hostilities in Korea, will not deter the Communists from these objectives. Although they will continue to participate in the negotiations as long as the UN is willing, the Chinese Communists will attempt to maintain the capability of a large-scale offensive, which they have at present. The loss of a few hundred thousand men in Korea in exchange for the large gains in arms and equipment received from Russia is typical of the Chinese Communist philosophy of war. They consider their military position excellent as it does not involve any danger to their war potential, nor do they worry about the present UN ground frontal attack as they can always withdraw north while sustaining the war in Korea indefinitely. The only thing General Hsiao believes them to fear in Korea is a flanking amphibious assault along the east and west coasts of North Korea, although even this is not considered much of a threat as they do not believe the UN forces have such intentions. [REDACTED]

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Comment: General Hsiao is at present deputy chief of the General Staff and has generally been rated as the most reliable analyst in the Ministry of National Defense. The views expressed by him regarding Japan and Formosa are generally accepted as long-range Communist intentions.

Chinese Communist acquisitions of arms and equipment from Russia are accepted as sizeable, particularly in planes and armor. The supply of equipment for Chinese Communist ground forces is also reported to be large, but this information remains unconfirmed.

After this interview, Peiping radio accused the UN Command in Korea of preparing for amphibious assaults against the Korean coasts.

10. Communists may expand jet operations in Yalu River area: The Chinese Communist Air Force is reported to be developing another jet operational airfield (at Takushan) in the lower Yalu River area, according to FEAF, which comments that a new field there would enable the CCAF to expand by 100 its jet fighter strength in the Korean border area. FEAF believes that 50 jet fighters are now based at each of the two operational fields (Antung and Tatungkou) at the border, and an additional 100 from the Anshan-Liaoyang-Mukden area of south-central Manchuria operate daily over Korea by staging through Antung and Tatungkou. [REDACTED]

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13. Communists charge UN employs Kaesong negotiations for military advantages: A 29 September Chinese Communist broadcast stated that the UN forces in Korea "since the beginning of the negotiations" have been

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preparing to make amphibious landings on both the Korean east and west coasts in order to drive "the Korean and Chinese forces back to the Yalu river." The Communists further characterized recent UN activity as "wrecking of the Kaesong negotiations." [REDACTED]

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Comment: This latest Communist claim may be an effort to counter effective UN propaganda that the Chinese and North Koreans have successfully utilized the respite of the Kaesong talks to rebuild their offensive potential. Additionally, it is known that Communist forces in Korea have a genuine fear of UN amphibious capabilities.

14. Communist air interdiction program moves south: The Far East Command, commenting on Communist air activity in the Korean war, observes that while previously most encounters with enemy jet aircraft took place over the Yalu river in the vicinity of Sinuiju, during "the past two weeks, the majority of encounters between friendly and enemy jets occurred in the Sinanju area, with occasional engagements in the immediate Pyongyang vicinity, and only a small number in the Sinuiju area." FECOM comments that it is "evident" that the Communists have "expanded the normal area of counter-air operations to include most of northwest Korea, almost to Pyongyang." [REDACTED]

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15. Communist prisoners report seeing Soviet antiaircraft personnel in the Antung area this summer: Preliminary field interrogation of recently captured Communist soldiers reveals that in late May and early June 1951 one soldier observed "thousands of Russian antiaircraft troops deployed along the Yalu river in the vicinity of Antung and in the hills surrounding Antung." Another prisoner claims to have seen 5,000 Soviet antiaircraft troops, dressed in Chinese Communist uniforms, detraining in Antung in early June, 1951. [REDACTED]

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Comment: The presence of a considerable number of Soviet troops in North Korean rear areas is accepted. Although not a firm estimate, it is possible that they number in excess of 20,000. While generally performing a technical, advisory, or service function, some organized antiaircraft units are believed to be operating in northwestern Korea. These dated and still unconfirmed reports although dealing with the Antung area are further evidence pointing to the presence of a relatively large number of Soviets in the Korean-Manchurian theater.

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SECTION 3 (WESTERN)

1. GERMANY. East Germans doubt Western sincerity on trade agreement: The Berlin Soviet-licensed Der Morgen speculates that the US may still impede the implementation of the interzonal trade agreement. The paper urges the entire German population to be on guard against further sabotage of trade; it calls for the abolition of restricted lists and of the West German central licensing office. [REDACTED]

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Comment: The East Germans are obviously anxious to conduct not only the trade authorized in the interzonal agreement signed on 20 September, but also the illegal trade which contributes to East German industry. The East Germans have not yet fulfilled most of the commitments regarding the freedom of Berlin trade and communications that they made at the signing of the interzonal agreement. They may hope that their stalling will achieve a relaxation of Western controls over illegal exports.

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3. Soviet High Commissioner charges remilitarization of Western zones: At the meeting of the Allied Council on 28 September, the Soviet High Commissioner introduced a lengthy statement of charges that the three Western

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powers have been remilitarizing Austria. Included in the bill of particulars were the allegations that the Western zones are producing military materials in plants previously utilized for such purposes by the Nazis, that military installations have been constructed throughout the Western zones, that an Austrian army is being organized covertly within the police and gendarmerie, that the US is authorizing Austrian preparation of fortifications, and that since 1950 the Austrian Government has issued numerous laws removing Allied-imposed restrictions on military activities.

These charges were vigorously denied by the Western commissioners. They proposed an inspection of all four zones in which the Austrian Government could participate and find out whether or not Austrian funds were being wasted as alleged by the Soviet Commander. This proposal was not accepted, and discussion of the matter ended with the Soviet Commissioner announcing his intention to raise the question in the military and economic directorates.

The US Legation believes that the Soviet charge is a preview of the probable attitude Moscow will assume when Austrian treaty discussions are resumed. [REDACTED]

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Comment: The alleged failure of demilitarization and denazification is a favorite weapon of the Soviet authorities whenever they want to belabor the Western powers on the subject of Austria. The Soviet remilitarization charge is a formalization of recent Communist propaganda allegations that Western Austria is being rapidly incorporated into Western defense plans.

4. ITALY. Income tax returns in Italy are disappointing: Reports in the Italian press and from the working level at the Finance Ministry indicate a decided slowness in the return of income tax declarations, the deadline for which is 10 October. A disturbing number of tax-payers are declaring only that amount of income agreed upon in past years between them and the tax-collectors. Such declared incomes are much lower than actual incomes.

Italian Finance Minister Vanoni has told US officials that the progress made on collecting the taxes is "satisfactory," but that the yield from income taxes this year may decline by a "small amount." [REDACTED]

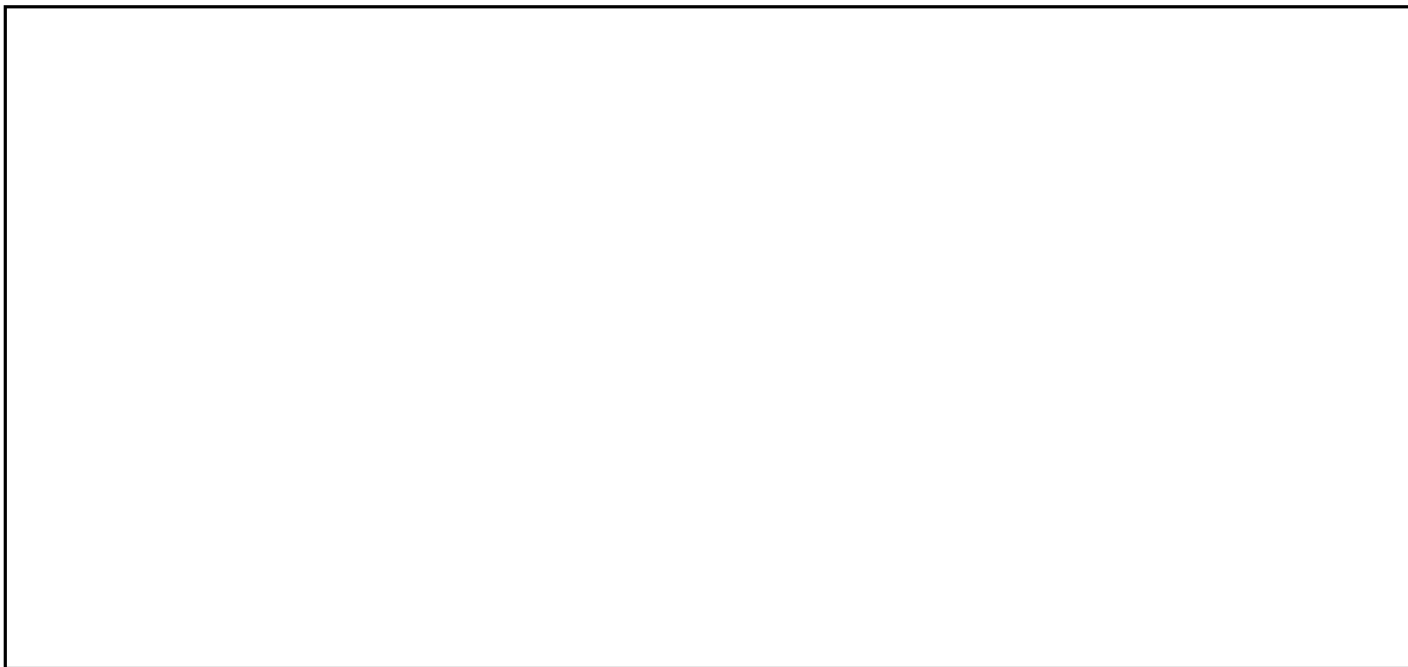
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Comment: At the end of 1950 the Italian Parliament adopted fiscal reforms designed to shift the emphasis in taxation from "indirect" to "direct" taxes. The Italian Government hopes eventually to secure a large enough proportion of revenue from direct taxation equitably levied so that it can abandon or reduce the other indirect taxes which at present weigh so heavily on the consumer and put Italian industry at a disadvantage in foreign markets. Graduated income taxes are one of the main points of this program. However, because of the traditional evasion of income tax, it will be some time before the government will be able to bring about an acceptance of "income tax declarations" on a US standard.

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6. ARGENTINA. Uruguay allows Argentina to reclaim planes used by exiles: The Uruguayan Foreign Minister informed the Argentine Embassy in Montevideo that Argentine crews would be permitted to go to the various airfields in Uruguay to return the seven army planes used by exiles escaping from Argentina after the 28 September disturbances. Four planes have already been claimed. The Argentine Embassy was also informed that the exiles will be interned under appropriate supervision in the interior of Uruguay.

The Argentine Embassy has made no protest regarding asylum, and thus far indicates approval of the prompt measures taken by the Uruguayan authorities. The Uruguayan Government intends to follow a strictly correct attitude and make every effort to avoid aggravating relations which are already strained by the presence of other Argentine exiles. The new exiles were refused permission to contact the Argentine exiles already in Uruguay.

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Comment: The Argentine Government has regarded the Uruguayan colony of Argentine exiles as a hotbed of subversive activity, and has resented the freedom allowed these exiles under Uruguay's tradition of freedom of speech and movement. Another source of irritation to the Argentine Government is the initiation in Montevideo of a series of biweekly broadcasts, received throughout Argentina, by the Latin American section of the International Federation of Free Trade Unions which has strongly condemned government domination of the Argentine labor movement.

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7. PARAGUAY. Possible shifts in high official positions: [redacted] the US Embassy in Asuncion indicate that General Emilio Diaz de Vivar, Commander in Chief of the Armed Forces, has been requested to resign, and that he has been, or will shortly be, relieved of his position. It is expected that he will be named Ambassador to Argentina. Other rumors involve several possible changes in the cabinet, army, and police. The embassy states that there have been no important troop movements or indications of pending disturbances, and that the "changes apparently have been amicably arranged." [redacted]

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Comment: [redacted] Paraguayan Government officials are divided on the advisability of a unification of the now "in" Democratic Colorado Party and the "out" Guion Rojo Colorado faction. This issue may be a partial explanation for any changes in high-level positions. The embassy has commented that the unification issue or the longer-range issue of a constituent assembly could bring "an open split among the Democratic Colorados, with resulting attempts to overthrow the Chaves regime...." Diaz de Vivar's position on these issues has not been clear. It seems possible that he may have become unsatisfactory to the government after his former subordinate, General Francisco Caballero Alvarez, was made Minister of National Defense.

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SECTION 2 (EASTERN)

1. EGYPT. Denunciation of Anglo-Egyptian Treaty increasingly favored in Egypt: Sentiment in Egypt favoring denunciation of the 1936 Anglo-Egyptian Treaty is increasing, despite the outward atmosphere of calm within the country. The US Embassy in Cairo reports that there is widespread skepticism in Egypt over the "new proposals" promised by the British and indeed considerable doubt whether the new proposals will be sufficiently liberal to counter the current anti-Western feeling in Egypt.

On 30 September the US Ambassador asked King Farouk to delay Egypt's abrogation of the treaty until the proposals could be advanced. Farouk replied that he could prevent Egypt from acting "for a brief space but not for long." The King added that he had told the Egyptian Government to prepare papers for abrogating the treaty, even though he hoped it would not be necessary to use them.

Comment: The successful implementation of the Middle East Command scheme -- the "new proposals" -- depends in large measure upon Egypt's approval of the plan. Once Egypt has taken the drastic step of abrogating the 1936 treaty, it will be difficult, if not impossible, to induce the Egyptian Government to consider a new defense scheme involving the present British base on the Suez Canal.

2. IRAN. Economic Situation: At the present rate of use, Iran's foreign exchange will last until January or February 1952.

While the financial situation is believed to be difficult, it is less serious than would be the case in a more industrially developed country. Imports are vital to Iranian economy only as a long range factor for capital development.

Comment: This supplements statements of the US Embassy in Tehran that Iran can avert economic collapse for several months. The lack of adequate foreign exchange could prevent the implementation of the economic and agricultural development plans which Iran badly needs.

SECTION 3 (WESTERN)

3. ITALY. Italian Minister to Yugoslavia suggests Trieste solution: On 27 September the Italian Minister to Yugoslavia, Signor Martino, expressed his view that "if the Yugoslav Government would extend their existing offer

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of Capodistria to include Isola and Pirano, a Trieste settlement might be reached." Martino's chief argument for Pirano was strategic; he said that if the Yugoslavs control this point they would command the shipping routes into Trieste.

Martino emphasized, however, that these were his personal views, and that he had no instructions from Rome that would indicate that his government might be willing to settle for this. He does not know how far De Gasperi can go to reach a settlement in view of internal political considerations.

Comment: There is no indication that this proposal is acceptable to the Italian Government at this time. Minister Martino's solution, however, is similar to Count Sforza's proposal, that is, a division of the Free Territory of Trieste along ethnic lines.

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